

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF PUBLIC SERVICE)
UTILITIES, INC., - BOONE CREEKE)
FOR A RATE ADJUSTMENT PURSUANT TO) CASE NO. 9269
THE ALTERNATIVE RATE FILING FOR)
SMALL UTILITIES)

O R D E R

On February 6, 1985, Public Service Utilities, Inc., - Boone Creeke ("Boone Creeke") filed an application with the Commission to increase its rates pursuant to 807 KAR 5:076, Alternative Rate Adjustment Procedure for Small Utilities ("ARF"). The proposed rates would produce additional revenue of approximately \$2,989 over normalized test-year operating revenues, an increase of 44.2 percent. Notice of the proposed rates was given by the utility in accordance with Commission regulations and no protests were entered. Based on the determination herein, the operating revenue of Boone Creeke will increase by \$2,272 over normalized test-year operating revenue, an increase of 33.6 percent.

COMMENTARY

Boone Creeke is a privately-owned sewage treatment system organized and existing under the laws of the Commonwealth of Kentucky and serves approximately 94 customers in Boone County, Kentucky. Boone Creeke is one of nine sewer utilities owned by Public Service Utilities, Inc.

TEST PERIOD

Boone Creeke has proposed and the Commission has accepted the 12-month period ending December 31, 1983, as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test period, the Commission has given full consideration to known and measurable changes found reasonable.

REVENUES AND EXPENSES

The ARF was established to provide a simplified and less expensive method for small utilities to apply for rate increases with the Commission. The financial data from the 1983 Annual Report have been used as the basis for determining revenue requirements. Boone Creeke proposed adjustments to revenue and expenses as reflected in the comparative income statement filed in Part II of the application. The Commission has made adjustments to reflect actual and anticipated operating conditions which the Commission deems are proper and acceptable for rate-making purposes.

NORMALIZED REVENUE

For the test period, Boone Creeke had operating income of \$6,210 from 87 customers. During the time between the end of the test year and the date of the filing of this application seven customers were added, resulting in a current customer level of 94. The Commission has applied the current rate of \$6.00 to this level of customers and has determined normalized operating revenues to be \$6,768.

Maintenance of Treatment and Disposal Plant

Boone Creeke's application reflected a proposed \$780 adjustment to Account No. 714--Maintenance of Treatment and Disposal Plant. Boone Creeke stated that this adjustment was necessary due to a price increase by Four Seasons Service ("Four Seasons"), the company that performs routine maintenance services at the plant. Boone Creeke further stated that the increase would be from \$1,800 to \$2,580 per year and would become effective July 31, 1985.

At the Commission's request, Boone Creeke furnished additional information concerning this increase. This information included the statement by Boone Creeke that one of its stockholders, T.R. Richardson, was also a stockholder in Four Seasons. In transactions between a utility and a company with common ownership, the burden of proof is on the utility to demonstrate that the outcome of the transaction is fair, just and reasonable, and is substantially the equivalent of an arms-length transaction. Moreover, if this burden of proof is not met, the Commission will not allow proposed adjustments resulting from such transactions for rate-making purposes.

The record in this proceeding indicates that Boone Creeke received one other bid from a firm offering to operate the system for \$2,800; however, the bid was not filed with the Commission, nor is there any evidence that the quoted amount was for a level of service comparable to that being provided by Four Seasons. No other meaningful information concerning transactions between Boone Creeke and Four Seasons has been filed in this proceeding.

Therefore, based on the evidence of record, it is the Commission's opinion that Boone Creeke has not sufficiently demonstrated that the less than arms-length transaction entered into between itself and Four Seasons is fair, just and reasonable; therefore, the Commission will not allow the proposed \$780 adjustment for rate-making purposes herein.

After consideration of the aforementioned adjustments, the Commission finds Boone Creeke's adjusted test-period operations to be as follows:

	<u>Reported Test Period</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted Test Period</u>
Operating Revenues	\$ 6,210	\$ 558	\$ 6,768
Operating Expenses	7,802	< 38>	7,764
Operating Income	\$<1,592>	\$ 596	\$< 996>
Other Income	84	-0-	84
Net Income	<u>\$<1,508></u>	<u>\$ 596</u>	<u>\$< 912></u>

REVENUE REQUIREMENTS

Boone Creeke's application reflects that it based its requested increase in revenue on an operating ratio methodology and requested revenue sufficient to produce a ratio of .88. In this case, the Commission finds that an operating ratio of 88 percent is fair, just and reasonable and will allow Boone Creeke to pay its operating expense, service its debt, and provide a reasonable return to its owners. In order to achieve this ratio, Boone Creeke should be allowed to increase its annual revenue by \$2,272. This additional revenue will provide total revenues of \$9,124 and an after-tax net income of \$1,095.

SUMMARY

The Commission, having considered the evidence of record and being advised, is of the opinion and finds that:

1. The rate in Appendix A is the fair, just and reasonable rate for Boone Creeke and will produce gross annual revenue sufficient to pay its operating expenses and provide a reasonable surplus for equity growth.

2. The rates proposed by Boone Creeke would produce revenue in excess of that found to be reasonable herein and, therefore, should be denied upon application of KRS 278.030.

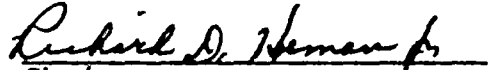
IT IS THEREFORE ORDERED that the rate contained in Appendix A be and it hereby is approved for services rendered by Boone Creeke on and after the date of this Order.

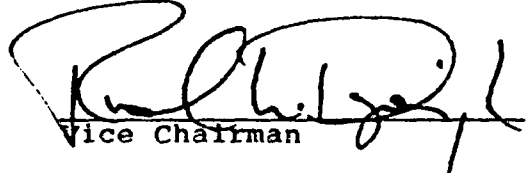
IT IS FURTHER ORDERED that the rates proposed by Boone Creeke be and they hereby are denied.

IT IS FURTHER ORDERED that within 30 days from the date of this Order Boone Creeke shall file with this Commission its revised tariff sheets setting out the rate approved herein.

Done at Frankfort, Kentucky, this 2nd day of October, 1985.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9269 DATED OCTOBER 2, 1985

The following rates and charges are prescribed for the customers receiving sewer service from Public Service Utilities, Inc. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

CUSTOMER CLASS

MONTHLY RATE

Residential

\$ 8.05